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UNCLAS QUITO 000154

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [SENV](#) [EC](#)

SUBJECT: Ecuador Economic News February 1 - February 8, 2010

REF: 10 QUITO 05

¶1. (U) The following is a periodic economic update for Ecuador that reports notable developments that are not reported by individual cables. This document is sensitive but unclassified. It should not be disseminated outside of USG channels and should not be posted on the Internet.

Highlights

--Ecuador's Central Bank Postpones Release of Third Quarter Results
--Banks Healthy and Liquid, but Profits Decrease in 2009
--Drought Affects Water Supply, Food Prices
--Rich Biodiversity in Yasuni National Forest
--Guayaquil Ethanol Pilot Program Begins

Ecuador's Central Bank Postpones Release of Third Quarter Results

¶2. (SBU) The Central Bank (BCE), which normally publishes third quarter results in late December each year, has announced it will not release third quarter 2009 results for the foreseeable future. The BCE maintains that the delay is due to re-calculation of GDP figures in accordance with a request from President Correa. In his October 2, 2009 weekly radio address, Correa said IMF-imposed methodologies for calculating national accounts skew GDP results. In particular, he has commented about the need to calculate in a different way the contribution to GDP of Ecuador's petroleum refining sector. In the past, the refined petroleum sector has been recorded in GDP calculations with a negative value-added due to the substantial subsidies the government provides for purchase of diesel, gasoline and natural gas. Several analysts have suggested the BCE is delaying release of the figures because third

quarter results show poor economic performance during the period. They have voiced concern that the delay would allow the BCE to alter the figures to the point that they would not be reliable, and claim that uncertainty over government reporting of economic statistics is deterring investment. The BCE has stated that Ecuador's GDP grew by 0.98% in 2009, while the IMF has estimated a 1.0% contraction, and the Economic Commission of Latin America and the Caribbean (CEPAL) has estimated a contraction of 0.4%.

Banks Healthy and Liquid, but Profits Decrease in 2009

13. (SBU) Profits for Ecuador's banking sector, which is comprised of 25 banks, 24 of which are private, declined from \$283 million in 2008 to \$217.6 million in 2009. Although banking deposits grew by 8.3% over the same period, loan rates declined, increasing liquidity in the sector. In 2009, limits on fees and lending rates imposed by the GoE further limited bank earnings. Profits declined at 16 banks, remained stable at one, and increased at only seven banks: Guayaquil, Procredit, Unibanco, Capital, Solidario, Comercial Manabi, Litoral and Delbank. Bank representatives have told Emboffs that while the banks have sought to increase their loan portfolios in 2009, they simply couldn't find a sufficient

number of customers. Private companies have confirmed this, stating that they are investing retained earnings and paying down debt, but holding off on large investments that would require taking on credit. The BCE recently announced a further 2.62% reduction in interest lending rates effective January 29, 2010, that will likely limit further profit margins. Despite declining profits and recent reductions in lending rate ceilings, several analysts continue to describe the banking sector as healthy, noting that productivity gains have mitigated the effects of decreased interest revenues and fees.

Drought Affects Water Supply, Food Prices

14. (SBU) Ecuador's worst drought in five years has caused food supply problems in the country's northern province of Pichincha, which includes Quito. The rainy season, which usually lasts from October through May, has yet to arrive in force. Pichincha recorded less than 0.2 inches of rainfall in January 2010, where average January rainfall is three inches. Despite rumors of potential water rationing in Quito, no restrictions have yet occurred or been announced. Quito's water authority, La Empresa Metropolitana de Alcantarillado y Agua Potable de Quito (EMAAP-Q), announced on January 8, 2010, that it was sufficiently prepared for the water shortage and that it would not need to resort to restrictions. Other locations are not as fortunate, however, and on February 6, president Correa announced a state of emergency for the central Ecuadorian provinces that have been affected by the drought. Guayllabamba, a town of roughly 13,000 near Quito, has shut off water access for two hours per day since January 18th.

15. (SBU) The drought has caused difficulty in agricultural areas. Low harvests throughout Pichincha province have caused prices on several locally grown products for domestic consumption to increase significantly over the last 30 days. Between December 2009 and January 2010, the price of beans and potatoes jumped 25% and 27% respectively, while naranjilla (an orange variant) and avocado prices increased 50% and pea prices increased 70%.

Unparalleled Biodiversity in Yasuni National Forest

16. (SBU) A team of researchers from several U.S. and Ecuadorian universities recently concluded that the Yasuni National Forest - a protected reserve near the northeastern rim of Ecuador covering some 3,800 square miles, comparable to the size of Hawaii's largest island - contains the highest level of biodiversity in South America and possibly the world. Every 2.5 acres contains roughly 655 tree species and an incredible 100,000 insect species. Scientists have also counted 596 bird species, and 150 amphibian species in Yasuni. These record breaking numbers exceed the biodiversity of the United States and Canada combined. Unlike the eastern Amazon, climate change models predict that Yasuni will remain wet and hot, providing a stable environment for its rich biodiversity.

17. (SBU) The park is also home to the Huaorani indigenous people, population roughly 4,000, and an oil reserve estimated at 850 million barrels. Given that the National Forest is a valuable resource for oil and environmental interests alike, the GOE has mooted compensation from the international community at \$350 million per year in return for protecting the Ishpingo-Tambococha-Tiputini (ITT) oil block portion of the forest from exploitation. The future of this deal is uncertain since the GOE has so far failed to attract sufficient donors (reftel).

Guayaquil Ethanol Pilot Program Begins

18. (SBU) On January 12, 2009, the GOE kicked off Ecopais, a program that adds a 5% share of ethanol to gasoline sold in Guayaquil. The coastal city is Ecuador's largest city, and is being used as a pilot to eventually bring a gasoline-ethanol blend to the entire country. Ethanol for the program is derived exclusively from domestic sugarcane and is mixed with gasoline at a recently-completed state-owned fuel terminal just north of Guayaquil. Based on the city's 5,830 barrel per day demand for gasoline, domestic producers are expected to provide 46,345 liters of ethanol per day.

19. (SBU) Officials from the Ministry of Non-Renewable Natural Resources hope the plan will generate employment in rural areas, reduce greenhouse and toxic emissions, and diversify Ecuador's energy supply. The Ministry estimates that the plan will allow Ecuador to import 320,000 fewer barrels of gasoline per year and save \$32 million. The Ministry has not provided estimates on the cost of the ethanol program.

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